

[House Hearing, 107 Congress]  
[From the U.S. Government Printing Office]

TREASURY, POSTAL SERVICE, AND GENERAL  
GOVERNMENT APPROPRIATIONS FOR  
FISCAL YEAR 2003

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HEARINGS  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

SUBCOMMITTEE ON THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT  
APPROPRIATIONS

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Committee, and Mr. Obey, as Ranking Minority Member of the Full  
Committee, are authorized to sit as Members of all Subcommittees.

Michelle Mrdeza, Jeff Ashford, Kurt Dodd, Walter Hearne, and Tammy  
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PART 2

UNITED STATES POSTAL SERVICE

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James W. Dyer, Clerk and Staff Director

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Wednesday, March 13, 2002.

UNITED STATES POSTAL SERVICE

WITNESSES

JOHN E. POTTER, POSTMASTER GENERAL, USPS  
RICHARD STRASSER, CHIEF FINANCIAL OFFICER, EXECUTIVE VICE PRESIDENT,  
USPS  
TOM DAY, VICE PRESIDENT OF ENGINEERING, USPS

#### Summary Statement

Mr. Potter. Good afternoon, Mr. Chairman and members of the subcommittee. Thank you for this opportunity to come before you to present the Postal Service's appropriation request for fiscal year 2003.

The United States Postal Service was established in 1789. Since then, we have served to bind the nation together through the establishment of a national network to deliver postal communications to every citizen in the United States. With over 750,000 career employees and yearly revenues approaching \$68 billion, we are the eighth-largest organization in America. We process and deliver over 200 billion pieces of mail each year. Our more than 300,000 letter carriers deliver mail to almost 135 million addresses across the nation.

Today's mailing industry is a vital part of the nation's economy. Nearly nine million Americans are employed in that industry, which generates an estimated \$900 billion annually. However, as you said earlier, Mr. Chairman, the Postal Service now faces extraordinary challenges brought on by the recession which began last March. Last fiscal year alone, we reported a \$1.68 billion loss. This year those challenges became even more pronounced in the wake of the September 11 attacks and the subsequent incidents of anthrax.

Despite the rate increase in January 2001, our revenues for the first two quarters of fiscal year 2002 are below the same period last year. We are now \$1.5 billion below our revenue plan for this year. Mail volume this year has declined over four billion pieces. In the face of this bleak picture, we took aggressive measures to shore up our finances. We reduced costs, while maintaining the levels of quality service our customers have come to expect and deserve.

During fiscal year 2001, we reduced the number of career employees by almost 12,000, and we trimmed programs, for a combined cost savings of \$900 million. Through the first half of this fiscal year, we have cut career employment by an additional 8,000 people. We are well on our way to achieving a cost savings of another \$1 billion. We have curtailed all capital construction for the past year, which means we have been forced to delay construction of new post offices. At the same time, our letter carriers are delivering mail to an additional 1.7 million new homes and businesses across the nation each year.

While the nation was gripped with the fear of terrorist attacks and anthrax contamination, our employees rose to the challenge. They continued to process and deliver the mail day in and day out. Our employees remain faithful to our common commitment to provide universal service to the nation. I want to thank them and I want to thank the mailers who came together as a team to help us keep that commitment.

We also want to thank the members of this subcommittee and

the Congress for the \$500 million appropriation to strengthen America's mail system against acts of terrorism. This was in addition to the \$175 million that President Bush provided us to offset our initial costs in response to the terrorist attacks. The Postal Service is extremely grateful to you and to the administration.

Last week we presented our emergency preparedness plan to Congress, outlining the use of these funds and our plans to further enhance the safety and security of our mail processing system. We have begun testing new detection equipment for eventual deployment. Advance filtration vacuum systems will be installed on mail processing equipment to reduce risks to our employees and customers and to prevent cross-contamination.

We still have two facilities closed--Brentwood, the main post office and plant here in Washington D.C. and the Trenton, New Jersey main plant. We are preparing to fully decontaminate both facilities, but it will be several months before we are able to complete both. To put the cleanup in perspective, at the Hart office building approximately 100,000 cubic feet of space was decontaminated. Our Brentwood facility has 17.5 million cubic feet of space. We will be using the same chlorine dioxide techniques used successfully at Hart. The science is known; it is the engineering issues that have added complexity.

The American people have shown their appreciation for the steps we have taken to maintain their confidence and trust in the mail system of this country. Shortly before the attacks in September, 98 percent of those surveyed told us they had positive feelings about sending and receiving mail. Just after the anthrax attacks, the number fell to 82 percent. I am pleased to report to you today that the number has now climbed back--back to 96 percent and is still climbing. While we are challenged, we recognize that we can no longer rely on the past strategy of simply raising rates to maintain a viable national delivery system. We must be prepared to make some fundamental changes in the way we do business if we are to continue to provide universal service in the future.

Even before the terrorist attack of last fall, the Congress asked us to create a transformation plan that will become a blueprint for our future. In the simplest terms, the plan will recommend ways the Postal Service can be transformed. We have reached out and sought the input and support of all of our stakeholders. Our goal is to gain long-term financial stability. We will suggest legislative changes to make us more effective in the 21st century marketplace. We will present that plan to Congress early next month.

Now, Mr. Chairman, let me turn my attention to appropriations.

Let me be clear, we are not here to request appropriations to subsidize operating expenses. Instead, we come before you to request a net of \$31 million to reimburse us for free mailing for the blind and for overseas voting materials. In addition, we request \$29 million for the 10th payment of 42 payments authorized by the Revenue Foregone Act of 1993. Given our financial condition, we are requesting that the remaining \$928 million balance, owed to us under the Act, be paid in 2003. We would use the \$928 million to restart our facilities' projects in more than 800 cities and towns that are affected by the

ongoing freeze. We would be able to build new post offices where needed and replace older ones that are no longer adequate to meet the needs of our customers.

The Postal Service remains committed to providing a universal mail delivery service for every American, regardless of where they reside or do business in this great nation. Clearly, the events of September 11 and the anthrax incidents serve to underscore the importance of the nation's mail system in binding together and uniting our nation.

We ask for your help and support to enable us to provide the level of quality service our nation needs and asks from us.

I would like to thank you, Mr. Chairman and members of the subcommittee. We would be pleased to respond to any questions you have at this time.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

#### APPROPRIATIONS

Mr. Istook. Thank you, Postmaster General Potter.

Let me ask first about the largest part of your request for appropriations from this subcommittee, and that is the \$928,174,000 as paying off now the 32 future payments of the Revenue Foregone account. As you know, that was originally set up at a rate of payments over a period of 42--I guess it is 42 years. And I recognize that your calculation is equivalent to \$29 million a year, times 32 remaining years equals \$928,174,000. But it does not take into account the time value of money.

Anyone who has ever seen a sweepstakes contest or a lottery, or any sort of give away where maybe they say, ``You can win \$1 million,'' it turns out they are saying, ``We are going to give you \$25,000 a year for 40 years.'' It is still not anything to sneeze at. But it is not the same as having \$1 million in your pocket right now. When you apply the appropriate discount rates, considering the time value of money, you may find that the present value of a stream of payments is only maybe a fourth--maybe fifth--but, certainly, a much smaller fraction than the amount requested.

Were this committee to honor the Postal Service's request for making a lump sum payment of all these future streams--these 32 additional payments of \$29 million per year--is it acceptable to the Postal Service to discount it to current day value, which--I do not know what the exact amount would be, but it might be a fourth, it might be a fifth of that amount--is that an agreeable situation for the Postal Service to resolve that future stream of payments?

Mr. Potter. Mr. Chairman, when we were owed that money, we were not provided interest on the original balance that was due.

Mr. Istook. Correct.

Mr. Potter. That was simple mathematical division; divide the number by 42, and it turned out to be \$29 million a year.

What we are proposing is that, since there was no future

value of money in the original proposal, that we are requesting the full \$928 million, and we are not proposing that we take into account, at this time, just as we did not take into account back in 1993, the future value of money.

Mr. Istook. I would certainly submit that the future value was taken in to account. It may not have been resolved in a way that you people like, but that is like reopening your original negotiation, as it were.

So I take it that the answer is no; the Postal Service would not consider it adequate to reduce this future stream of payments to its current value. And therein, I think, lies part of the challenge for this Congress in considering the request, as well as the concern of people taking operating expenses, as it were, and seeking to capitalize them now.

#### PAY FOR PERFORMANCE

I need to bring up directly what I think is one of the major challenges that this subcommittee has in dealing with the Postal Service request, and, frankly, it is a credibility question.

This past December there were the annual payments of what I believe you call the pay-for-performance--most people would call it a bonus--that went to, I believe, some 80,000 supervisory or managerial level employees of the Postal Service. And over, I believe, it was the last three years, those amounts total something like \$800 million. Right after this Congress made a special appropriation to the Postal Service of some \$500 million that annual payment continued, and we find that the payments were not reduced or abated because the Postal Service, this past year, operated in the red rather than in the black, as it had in prior years.

Is it correct that there was an assumption that there had been economic value added that was used to fill in the gap in the formula that was used to pay postal employees so that the fact that the Postal Service was operating at a loss, not a profit, could not be used to undermine paying out the large amounts of bonuses?

Mr. Potter. Mr. Chairman, by law the Postal Service is obligated to pay wages and use pay practices that are comparable to the private sector.

In 1996 we changed from a federal pay system, where people were given automatic raises in terms of a step process to get from the bottom or entry-level wage to a top wage. We also eliminated overtime for our supervisory employees where they get straight time. And, as part of that pay package, we instituted a pay for performance program, which basically puts our compensation in line with the private sector.

We tied the compensation of our employees to business outcomes in two respects: One is in terms of their merit process--the annual adjustments that are made to their base pay; as well as, we created a lump sum pay-for-performance program that rewarded team performance. By law, we are required to go into a consultation process with our management associations. And prior to fiscal year 2001, which payouts

occurred this January, a commitment was made to our employees that based on a set of goals and using an economic value-added formula, there would be pay outs.

Now, in that fiscal year, our employees saved some \$900 million--and that is all of our employees--saved some \$900 million through increased productivity.

Mr. Istook. So had they, for example, as you calculated through increased productivity, saved \$10 billion, but still operated at a \$1.6 billion loss, that would not have made any difference. I mean, that is part of because you say you are required by law. There is no law that requires you to have made those payments. You are required to consider the concept of private companies, but you are not required to assume that you had the same result as if you had made a profit.

I understand profitability is not the sole measure in evaluating an employee's ability to collect a bonus. But removing that factor from the equation with an economic assumption, which is as I understand it, I do not consider proper. And your own inspector general--I have got a copy of his letter dated December 5 of last year, from Assistant Inspector General for Core Operations, Ronald K. Steith--that talks about what you call the ``economic value-added concept'' that you used to assume away the losses of the postal service. States that ``it was not appropriate to fund the postal''--the audit revealed that the use of the economic value-added concept was not appropriate to fund the Postal Service's pay-for-performance program.

The concept created for profit making entities did not fit the Postal Service's break-even environment. Management disagreed with our analysis but agreed to look at alternatives to funding the pay-for-performance program.

I mean, Mr. Postmaster, I think that this situation has done the Postal Service a world of harm. When you are operating at a loss--you mention there is a recession; we heard recently the recession is over. And, nevertheless, it is that type of management approach that causes a great amount of trepidation with me and with many other members of Congress.

Is anything being done to change whether profitability or lack of it is going to have a significant impact upon whether the pay-for-performance bonuses are paid or in how they are calculated; whether they will be significantly diminished if the Postal Service does not return to profitability?

Mr. Potter. If I could add a couple of points before I answer that specific question.

Mr. Istook. Sure.

Mr. Potter. The funding formula, EVA, the economic value added formula, was put in place because the Postal Service operates as a break-even entity. As a break-even entity, you are going to have years where you lose money; you are going to have years where you barely break even; you are going to have years where you make money.

At the time that the discussion was underway regarding the formula, there was a concern that should we only be able to reward managers in a year where you make a profit--or have net income, I should say--that that would cause us to be motivated to raise rates. And so, there was a desire on the part of everyone to make sure that we were motivated to operate as

efficiently as we possibly can.

That program produced record productivity, record service levels and contributed to record safety performance. So there is a history of performance under this program that, when you look back at it, there were a lot of positives. I do not disagree with the fact that there are a lot of concerns out there. But when the decision was made about what we did about 2001, we entered fiscal year 2001 having agreed with those 82,000 managers that we were going to use that formula.

Now, I did not come into this office until July. But prior to that, we understood that there were concerns about the funding mechanism.

In the fiscal year that we are in, 2002, there has been no commitment made to use that EVA formula. We are, right now, in consultation with our management associations, the postmaster groups, and the National Association of Postal Supervisors, looking at our overall pay plan. Our goal is to continue with the principle that we tie wage increases and lump sum payments, if there are any, to performance. We are looking at alternative funding mechanisms and the level of funding, if any, for performance-related lump sums. That is on the table.

In order to pay good-faith to the consultation process, I do not really feel that I am at liberty to go beyond what I just described. Suffice it to say, we would have preferred to have had an alternative in place prior to the beginning of this fiscal year. The fact of the matter is that our contract with the American Postal Workers Union is the trigger for consultation on management pay. Their contract expired in November of 2000. Their contract went to arbitration. There was a prolonged period. Normally, it would be resolved in the spring with enough time for us to have consulted with management and be ready for this fiscal year. It was not. It was not resolved until December. We began our consultation process with the management organizations in February, as required by law 60 days after that contract.

So we are aware of your concerns. We are aware of the fact that people have questions about our programs, particularly the EVA funding mechanism, and we are attempting to address that in consultation as we speak.

If I could make one other point, too?

Mr. Istook. Go ahead.

Mr. Potter. In the funding mechanism, EVA does work. We did have payouts this year. And the funding would have actually been about \$100 million more had it not been for the fact that we had the attacks on September 11 (sic), which dramatically hurt our finances in a 3-week period of time. So, you know, there is a relationship between payout and what actually happens in terms of performance.

And we hope, and we are working very hard, to make sure that we put a program in place that is transparent to all and that is easily understood. But we want to make sure that our managers are still motivated to earn wage increases and lump sum payments through performance.

Mr. Istook. I appreciate your comments, and I think you have understood what I had to say. I would just mention finally that just as the Postal Service, of course, was not responsible for the anthrax attacks occurring--certainly not you, not the

postal service workers--nor were the airlines or the airline executives responsible for the fact that terrorists chose to attack the World Trade Center.

Nevertheless, you had boards and executives and airlines foregoing pay--many of them for an entire quarter; you had many people that--whether it be in their retirement plans that had stock value loss; whether it be that their jobs were either curtailed for a while; whether they were laid off or their job was actually lost--despite the best efforts of Congress to insulate people as much as possible from a systemic collapse, so, too, you know, there are consequences from events that you cannot control that, nevertheless, I believe the Postal Service must accept just like the private sector has to accept.

I appreciate your time and testimony.

I would like to defer time now to Mr. Tiahrt.

Mr. Tiahrt. Thank you, Mr. Chairman.

Welcome to the committee.

#### FACILITY INSPECTION GALLERIES

I was recently in the Wichita sorting facility that the Post Office has and I was amazed at how many millions of pieces of mail they push through there, and they do a very fine job. I guess it is very similar to the Brentwood facility here locally. And I noticed there was, just in the sorting machines, a great deal of dust, and you could see how an anthrax problem would be proliferated in a facility like that, and I appreciate the safeguards that you are putting in place. I know it is expensive and time consuming.

There are some other things that I noticed at the facility. One was these enclosed walkways where the people work with positions where they can anonymously overlook the workers. I suppose they are there so people do not tamper with the mail. But are not there severe enough restrictions in place so that if some employee did tamper with the United States mail that they would be severely punished? What is the purpose of the walkways other than that?

Mr. Potter. Congressman, those are what we call, inspection galleries, and they are used to observe our employees for the sole purpose of criminal investigations. They are able to mount cameras in there and collect evidence against employees. That is their sole purpose. In a number of facilities around the country, they have been replaced with cameras.

Mr. Tiahrt. I think cameras are a lot less personal. It seemed almost like a gulag mentality, when we have to have that old archaic system.

Mr. Potter. I do not disagree with you, having been a clerk. [Laughter.]

#### MAIL VOLUME

Mr. Tiahrt. In your testimony you said that the mail volume this year has declined over four billion pieces. Is that a

combination of first-class and third-class? Where are you feeling the pinch the most?

Mr. Potter. The biggest drop we have seen is in advertising mail. So it is the third-class as you describe it. The decline there is somewhere on the order of 7, 8 percent. First-class is about in the range of 2 percent. Priority Mail is down about 15 percent.

#### MAIL SECURITY

We have been impacted in our ability to fly mail. We are not able to tender anything over 16 ounces to commercial airlines. So we have had to reroute mail, and we have expanded our Federal Express contract.

Mr. Tiahrt. Why is that?

Mr. Potter. For security reasons.

Mr. Tiahrt. And who imposed that?

Mr. Potter. The FAA.

Mr. Tiahrt. The FAA, only 16 ounces.

Mr. Potter. Yes, sir and we have had to expand our Fed Ex contract. And that is costing us in the order of \$150 million annually to take the mail off of commercial air and put it on--

Mr. Tiahrt. Are considering that as delta or that just an outlay of \$150 million?

Mr. Potter. That is a delta.

#### POSTAL SERVICE FINANCES

Mr. Tiahrt. Okay. You mentioned in your testimony that the president bumped up in October USPS funding by \$175 million. In December, Congress added a half a billion--or \$500 million to that. The last rate increase was about \$2.78 billion for the Post Office. I think the next one is expected to generate over \$4 billion.

So in two years, we had an increase of about \$7.7 billion going to the USPS, and still we are in a deficit.

Now what is your projected deficit for fiscal year 2002?

Mr. Potter. For this year?

Mr. Tiahrt. Yes.

Mr. Potter. I think we are going to be somewhere above \$2 billion. We are still trying to put the numbers together. Early on, it looked like it was going to be as much as \$5 billion, but we have tightened our belt as best we can. We are very grateful that the Rate Commission--we are hoping that the Rate Commission accelerates the rate case. If not, we will be over \$3, maybe \$4 billion.

Mr. Tiahrt. I have got a chart here that I can give you afterwards. It quotes sources of the deficit of fiscal year 2001 was going to have at USPS. And the first is from PostCom on October 10, 2000. It looks like one third of a billion was going to be the deficit. The second one was reported in December 11 in the Federal Times of \$1.2 billion. And March 2 a letter from President Bush from the Postal Service Board of

Governors said it was going to be \$2 billion.

And then the next one was a statement from William Henderson, former postmaster general, on April 4 that it was going to be at the time close to \$3 billion and then drop down to \$1.5 billion on a report on June or excuse me, May 15 from the statement made by Robert Rider, USPS chairman of the board of governors.

Then on June 5, it was reported it was going to be \$2.4 billion on a press release that came out of your office. And then the Wall Street Journal finally reported on December 5 that it was going to be \$1.7 billion and it came out \$1.6 billion.

So we have all these projected deficits for fiscal year 2001. It is hard for us to plan and budget and try to help when we do not know exactly what the target is. When will you be firming up your numbers?

Mr. Potter. That was for this year you are talking about?

Mr. Tiahrt. Fiscal year 2001.

Mr. Potter. Right. That was fiscal year 2001. Let me just say that if you take 3 percent of our operating revenues, we are talking about a \$1.8 billion swing. Because of our size, \$68 billion in revenue, a shift in volume or any kind of movement in one direction or the other creates a significant number, just like the federal government.

And so our deficits are a function of a varying number of issues. For example, I just described the transportation issue. This year, we are looking at volumes. If we were to project at current volumes and assume that that was a straight line going out, we would be offering a very high number.

If we made an assumption that we were not going to get an acceleration in the rate case, that number would be very high. If we were to make assumptions, negative assumptions about what might happen in terms of our employee contracts, that number could be high or low.

Each one of these variables has swings of \$400 to \$500 million. And in the case of the Rate Commission decision, \$1 billion. That is why it is very difficult for us to-- particularly in a time when you are in a recession or in the time now when you are coming out of a recession, to accurately predict within \$100 million, as I would love to be able to do, where we might end the year.

So I am not trying to say that we would not be more credible if we could hit a number and then stick to it. What I am saying to you is that there are a lot of influences that are beyond our control, that we wish were not there. But the fact of the matter is, we are dealing with a very delicate economy. We are dealing with, in some cases, arbitrators' decisions. We are dependent upon the Rate Commission to make a decision. All of those things are factors.

Mr. Tiahrt. Well, I guess when the weatherman cannot hit the weather next we, we probably ought to cut you some slack. I do have to tell you it does make it more difficult on our part.

Last question I have is what impact do you think email has had on USPS? And how are you going to--you know, how do you deal with that?

Mr. Potter. We have seen a decline in single piece First Class Mail, so we know that there has been a migration by some bill payers away from us to email, electronic transfers of funds. We also have seen over the years the movement of business-to-business mail away from hard copy to electronic exchange of information.

And we are building a transformation plan that was described earlier, to look into the future and try as best we can to look at what assumptions could be made about where the mail volume is going and what we would have to do as a government entity to deal with that.

Mr. Tiahrt. Thank you, Mr. Chairman.

Mr. Istook. Thank you, Mr. Tiahrt.

Ms. Northup?

#### INTERNATIONAL MAIL BORDER INSPECTION

Mrs. Northup. Thank you. Thank you. Let me just first of all ask you, in this climate of heightened awareness everybody is extremely concerned about what goes in and out of this country. I have what I think is an obvious question, but one that I think should be asked for the record nonetheless. Am I correct in assuming that the postal service's policy to comply--it is your policy to comply with all of the U.S. border protection inspection laws?

Mr. Potter. I assume so. I have never asked. And I could probably provide a more accurate answer for the record. I would not imagine that we would not.

Mrs. Northup. So I mean, basically you do think though that the postal service is expected to comply with all the inspection laws for ingoing or outgoing mail?

Mr. Potter. Yes. I think we are required to comply with the law.

Mrs. Northup. Okay.

#### PAY FOR PERFORMANCE

Let me go back to the bonuses. I understand that--I think what I understand, though I realize I was a few minutes late, that basically you had targets on production and quality and movement efficiencies that if these were met, bonuses would be predicated on that, not on profits or losses.

Mr. Potter. Right. Lump sum payouts, what we would call them in pay for performance.

Mrs. Northup. And did everybody get these, or just a couple of managers?

Mr. Potter. They varied across the country based on the level of performance in different areas around the country.

Mrs. Northup. And did every area get bonuses?

Mr. Potter. Every area qualified for some level of bonus,

yes.

Mrs. Northup. I mean, I do not object to using criteria other than profits. But I have never heard of anybody setting the criteria so that if you meet the expectations you do not also have a profit.

In other words, if you are going to be rewarding efficiencies, if you are going to examine quantity versus cost, that all the bonuses would be predicated on if everybody attained them. Now, it would be one thing if one whole section of the country collapsed, caused such a loss that that particular deficit would give the overall business a deficit. Or if half of them had. So that, you know, you have half of them offsetting the half that did a great job, I would understand bonuses to that half.

But what you clearly did was set up equations so that even when every target was hit, you were going to lose money, but they were going to get the bonuses.

Mr. Potter. Well, I would describe the Postal Service as a break-even entity. There was a great concern when we entered this program that we should provide people an incentive in a year when we were not going to make a profit or have a net income, because we must break-even and because of our rate cycles, the desire to spread out the rate increases as far as we can; historically, the Postal Service has had more negative net income years than it has had positive income years. So if you designed a system where the only time you could earn an incentive was a year when you raised rates, then you would have a year where----

Mrs. Northup. I agree.

Mr. Potter [continuing]. People tank it so that when they raise rates they could make it. So it is a very complicated situation to take and apply a private-sector model for government.

Mrs. Northup. Well, yes, let me--my time is going to be over. I have heard, exactly that explanation. But again, I mean, it is hard for me to understand why, first of all, businesses, whether they are talking about dividends, whether they are expected not to pay--they all have bad years.

And the airlines, I think is the chairman's perfect example. When we paid out money to save the airlines, the criteria was you cannot pay bonuses. And it sort of shocks me to find out that we paid out this money and you are thinking about paying bonuses out in the same year.

Mr. Potter. We would not characterize them as bonuses. We would characterize them as pay for performance. When you look at it historically, it has worked. I will be glad to share more data with you, but when you look at the overall program, it has been a huge success for the Postal Service.

Mrs. Northup. You know, and let me just say if the airlines came in and gave us that answer, about why we should pay their executives bonuses of 25 percent of their income, we would not accept it. I mean we would not accept it when they also--when they are also needed to be an extra appropriation.

Let me just, along that line, point out one of the maybe also unfortunate things that happened, is that based on this way of bonuses, you had in Louisville, Kentucky, 200 trailer trucks full of third class mail that had been given credit for

being delivered, misdated, all stored some place.

There was a whistle blower that first of all went to the supervisor there and said, ``This is illegal. We are collecting money for this and we have trucks--all of these trailer truck loads full of mail that is not being delivered because we are trying to meet efficiency standards.''

And when he could not get anything done there, he actually then went to the inspector general that went down and investigated and found out that it in fact was true.

I think I asked you last year, do you think that there are other places in the country where this is going on in order to get these bonuses?

Mr. Potter. The instance that you are referring to happened several years ago. What we have done is we have put out our Inspection Service. It is not the inspector general. They are our postal inspectors, and we have them out there conducting reviews while they are in there doing security and other issues, to make sure that the data that we are getting are accurate. I am aware of----

Mrs. Northup. The report just came out a year ago in January.

Mr. Potter. Right, the incident, I think, had been the year prior to the report.

Mrs. Northup. Right. But it had been denied up until then.

Mr. Potter. Again, we have put in procedures with an independent body, not the managers self reporting, but the Inspection Service going in to make sure that that is not the case.

Mrs. Northup. Well, I know my time is up. Let me just say, I know that the rank and file workers at the Post Office feel that they are under a lot of productive pressure. They feel more and more demands on them.

I think that there is probably an increase in resentment if they feel that at the very top of the chain the people that are running the postal system are not making sacrifices, are not being asked to also make efficiency changes, then there is a lot of that feeling that the culture of the Post Office is where the rank and file are being expected to be more productive and that there are people at the top that are living a much more guaranteed life.

Mr. Potter. Well, if I could respond to that Mr. Chairman. Last year in September when I got on board, we eliminated 20 percent of our officers. We eliminated 20 percent of mid-level management structure. We are right now undergoing a RIF in our headquarters building. People are losing jobs. So we are stepping up and meeting that management challenge, I think, to reduce costs.

On the other hand, we are at the current time, losing good managers to the federal government because of our pay structure. So not having the ability to pay will mean that the quality of our managers will go down. And we are not talking about, the airlines where there were certain provisions that people that make more than \$300,000 have limitations on what they can get.

We have no one in the Postal Service who makes close to \$300,000 I can assure you of that.

Mrs. Northup. I think you make a good point. Thank you.

Mr. Istook. Thank you, Ms. Northup.

Let me mention for the benefit of the members, unless it causes anybody any scheduling difficulty, I want to deviate slightly from the order of arrival of members so that we can let both sides of the panel do some alternation.

With that in mind, I intend to call next upon Mrs. Meek, then Mr. Peterson, Mr. Hoyer, Mr. Sherwood and Mr. Rothman. If anyone thinks that that needs to be adjusted, please just let me know and we will try to accommodate everyone.

Mrs. Meek.

#### FLORIDA WEATHER EMERGENCY POLICY

Mrs. Meek. Thank you, Mr. Chairman. And welcome Postmaster Potter. Welcome Mr. Postmaster.

Mr. Potter. Thank you.

Mrs. Meek. We recognize the extraordinary challenges that postal workers and the service industry have. And you faced that all of this year practically. And we thank you very much. We are indebted to you for your service.

In the face of these challenges, you continue to provide universal service and deliver in a timely way these services. In my view that committed professional work force is the reason why the Postal Service is going so well with the public in all of the public opinion surveys that have been taken.

Thank you for that.

For the past two years this subcommittee has expressed its concerns about the Postal Service's weather emergency policy, particularly in my district especially as those policies affect south Florida.

I have read your most recent report dated March 6, 2002. The report details the process through which the Postal Service developed its weather emergency policy and the process for which local emergency management authorities developed their weather emergency policy.

However, your report fails to indicate whether you will follow the recommendations and directives of local emergency management authorities in weather emergencies.

I could explain this to you a little bit better. During one of the last emergencies we had in south Florida, a big flood as well as big storms that come down many times unannounced, many of the postal workers had to work under very bad conditions. That is the local emergency service people said to everyone else in Florida, ``You go home, the weather is too bad.''

But they did not send this kind of letter to the postal workers. I need to hear what do you think about that? And will you agree to do so in terms of sticking with the local emergency authorities because they are on the ground and they can see what is happening?

Will the Postal Service also adjust and agree to do some of the guidelines for local emergency managers recommended?

Do you know anything about this?

Mr. Potter. I am not familiar to the level that you are talking about--local managers. I know that we updated our policy because there were concerns.

Our local managers around the country have the authority to do what is in the best interest of their employees. Now I would be glad to get off line with you and have a conversation about something very specific, and I am a little surprised to see that there is a dissatisfaction with the new policy.

So I recommend that maybe we do that.

Mrs. Meek. Now I did not see in your policy to explain whether or not you refused to go along with the emergency management people.

Let me go through that scenario once more.

You have local emergency management people----

Mr. Potter. If I am a manager out there and my employees face a condition that is threatening to them, I have the ability to pull my people back. I have the ability to do things.

Mrs. Meek. Well, they have not been following your mandate----

Mr. Potter. Well, again----

Mrs. Meek [continuing]. Where it needs to get to----

Mr. Potter. Again, there is judgment involved. And I think that might be an issue that we would be better off taking off line so that I am familiar with more of the specific that you are talking about.

Mrs. Meek. Well, I would not want you to take this off line at this point. What I want you to do is to tell me whether or not if a local emergency, your policy regarding local management, emergency management people.

Mr. Potter. If there is an evacuation order----

Mrs. Meek. I do not think I am finished with that.

Mr. Potter. Okay.

Mrs. Meek. In terms of local management people have certain mandates they give to their employees. The thing that I am asking you to, will you go along with this, these directives that are put in by local management authority in weather emergencies?

Mr. Potter. If there is is a mandatory evacuation, we evacuate. Again, I do not--I am not familiar with----

Mrs. Meek. Your policy states then that in a local emergency and people have been granted the--the emergency management people have said evacuate, you are saying----

Mr. Potter. If we have a mandatory evacuation, we evacuate.

Mrs. Meek. Well, they did not do it. So I wanted to call that to your attention. From management's point of view, what do you do in a case like this?

Mr. Potter. For example, when were told to evacuate because of the World Trade Center, we evacuated. We did not go back into that geographic area until I think it was three or four days later when the city said the streets are open for people to go. We did not say to our employees, ``You know, find a way to get through the police barricades.''

Mrs. Meek. Well, I wanted to call that to your attention that other workers were released, they were evacuated, but the postal carriers, the mail carriers were not in south Florida.

Mr. Potter. And it is my understanding that is why we updated our policy because of concerns with hurricanes I believe.

Mrs. Meek. Would you please quiz--I did not see that

particular policy in your statement. Would you please share that with me----

Mr. Potter. Yes.

Mrs. Meek [continuing]. In my office?

Mr. Potter. Yes, definitely.

#### REVENUE FOREGONE REIMBURSEMENT

Mrs. Meek. My next question is, you asked for \$928 million this year. The total remaining unpaid and the revenue foregone reimbursement, you state that these funds if received, would be used for capital projects. You also note that the Postal Service needs to spend \$600 million on capital improvements simply as a result of adding 1.7 new homes and businesses this year.

Yet you have a facilities freeze currently in effect. What will you do next year if you do not receive this money?

Mr. Potter. If we do not receive this money, we will continue to and manage with what monies we have. We have a borrowing cap. We are very limited in terms of our flexibility. In an ideal situation, we would look for there to be volume growth that would generate the type of revenues that could allow us to start our facility capital projects again. But, right now, we do not have those funds available.

Mrs. Meek. How much more funding will you need this fiscal year from the \$500 million that you are to receive from the supplemental in order to deal with your security needs?

Mr. Potter. Beyond the \$175 million that was provided by the White House and the president and the \$500 million that the Congress provided, we think that we might spend an additional \$87 million.

Mrs. Meek. Is my time up?

Mr. Istook. It is, Mrs. Meek. Hopefully, we will be able to come back to you.

Mr. Peterson?

#### PAY FOR PERFORMANCE

Mr. Peterson. Thank you and welcome. I do not know that we have met, Mr. Potter, but----

Mr. Potter. I do not think we have, Congressman.

Mr. Peterson. No.

I represent the most rural district east of the Mississippi so I have lots of your facilities in numbers in my district and very small ones, and I know the vital role you play in rural America and I hope you consider me as a friend, someone who would work with you to improve service and become more efficient.

But I also have a retail business background through a market, so I provided food service; you provide mail service. So I think I have some ability to assess.

I am going to come back to the bonus system. I know it has been beat to death and it was talked about before I got here,

but who gets the bonuses?

Mr. Potter. Eighty-two thousand people, including those small postmasters that you have in your district.

Mr. Peterson. Supervisory people?

Mr. Potter. All postmasters--all 28,000 postmasters; all supervisors and management on up.

Mr. Peterson. Have the majority of your supervisors had experience delivering the mail?

Mr. Potter. The bulk of our managers have----

Mr. Peterson. Supervisors.

Mr. Potter [continuing]. Have come up through the ranks, whether that is supervisors or postmasters. A lot of the clerks. I mean, people do come up from the bottom.

Mr. Peterson. Okay. But do you hire supervisors that have never delivered mail?

Mr. Potter. Yes. Not many, very few.

Mr. Peterson. Okay. Maybe I just have a----

Mr. Potter. In order of magnitude, out of--I think we have some--how many supervisors--about 35,000. I would think it would be a stretch to say we have 500 that were hired---

Mr. Peterson. Is that right? Okay. Well, it was an issue.

Mr. Potter [continuing]. Other than up through the ranks.

Mr. Peterson. Well, some months ago I had a request to meet with some postal employees, and I have done that routinely and so I said I would do it at my office and, fortunately, my office was closed and when I got there it was packed. They had come from many villages around and I was really kind of taken back.

And I was taken back by the frustration level that I felt and, as a former employer, I mean, I took them seriously because it was people who had had 30 years experience and people who had had five years experience and people who had been supervisors and had given up the supervisor's role, went back being clerks for whatever reason. But there was a cross section and there was unanimity.

Well, then, I went back to some of my small towns of people I have known all my life and I asked them, ``Are you frustrated with the system?'' And they shared, ``Yes, we are.'' And there seemed to be an equal frustration between postmasters and clerks. I mean, it was kind of a unified front. I was taken back by it. And then, you know and I know that any system you are going to impact positively, you have to have the people with you. You have to have your employees pull on your rope in an agreement.

The biggest contention was the bonus system and I found that surprising because they felt it was a system where people were managing to maximize bonus, not service. And things like mail put in storage and claiming it was delivered, including next-day delivery mail; mail double-counted so they reached their quotas.

They went on and listed things that happened with some regularity and everybody in a group of 50 people agreed that is how it happens, and from numerous post offices and from numerous centers. So it was a broad section.

I mean, I expected to meet with a half a dozen people and I met with a room full. But I have not gotten a different message from people out across the district, as I meet and I just visit

with them; people out on the street delivering mail, I would just say, you know.

So I guess, my question to you is, do you agree that there are problems in your system?

Mr. Potter. I would say a system that has over 750,000 career employees and has upwards of 900,000 when you take noncareer into place--a system that is that large will have problems. I think there has been some dissatisfaction on the part of people with compensation for managers because we have put performance as one of the criteria.

We are not a business that has a lot of excess right now. We are in a very difficult position and, obviously, we want to raise the bar first on service because if our service is not high, you know, then our customers do not have value for what they are paying for.

And then, we want to do that as efficiently as we can, and if you were talking to the folks, there has been some dissatisfaction because we went from a system where people automatically got raises. They went from the bottom of a pay scale to a top without linking it to performance.

There are people who are dissatisfied that they used to get overtime--time and a half pay--as a supervisor and they went to straight time as part of this program. Yes, there is dissatisfaction over that. But there is a need for the Postal Service, particularly as you look at the future, to be a performer, and we would like to do it the right way and people-friendly way. But there was a need to change the entitlement mentality that existed. Part of the pay-for-performance program looked to address that.

And if you look at our performance over the past years, our service, as measured by an independent auditor--Price Waterhouse measures it--it is at all-times high. Our productivity is at the highest level it is ever been in the history of the Postal Service, and our safety record continues to get better.

So, you know, I understand that there are concerns on the part of some people and change is tough for people, and we are in the process, as I described earlier, of consulting with our management groups about their pay and about the whole pay-for-performance program.

There are some concerns, as was expressed by the chairman before you got here, about the funding mechanism; that is under review. And, unfortunately, we are in a good-faith consultation process, so I wish I could comment further on what I think the outcome will be. Perhaps, at the next hearing we will have the results and then you can evaluate it based on that.

Mr. Istook. Your time has expired, Mr. Peterson, unless you have some quick closely comment.

Mr. Peterson. Well, I guess, I was just going to say that I am surprised that the level of frustration that was out there and I guess my one comment might be; change is difficult, but did it come from the top down or did you somehow involve the folks in helping to develop and design that change? When you go top down, you are always going to have huge frustration. If you work from the ground up and get your employees to buy-in, they will change themselves.

Mr. Potter. Right. I have been here eight months and I

agree with your comments.

Mr. Peterson. Top down does not work.

Mr. Potter. I agree with your comments.

Mr. Istook. We do have, unfortunately, not just one vote, but multiple votes, which is going to force us to a recess in a moment. But before we do so, I want to recognize Mr. Hoyer to give him time both for the opening statement that he might have deferred, as well as for questioning the witness. And I presume that is going to bring us to the point where we have to recess and then resume with Mr. Sherwood and after that Mr. Rothman.

Mr. Hoyer. Mr. Chairman, I will just ask that my statement be included in the record at this time.

I would make a general comment that I have been involved with the Postal Service for many years now and they are at a time of great difficulty. However, if you have served on this subcommittee for very long, you know that we went through a real fader of performance, if you will.

In my opinion, not so much because of the people, but because of--we lost too many people too quickly in not necessarily the right places. Our equipment was not put on line as quickly as it could have been and our training lagged and it all came together and we were doing performance levels of 60-65-68 percent around the country. Those performance levels are now in the 90s in my own area.

I do not know off the top of my head how many millions of pieces are delivered daily in the 5th Congressional District, but even the University of Maryland Terrapins would take the percentages that the post office takes in terms of win-loss.

They are at, in my district, 95 percent on-time delivery. Obviously, 5 percent of a big number is a big number. You have people who are concerned, as all of us would be. I think we focus too often on the negative.

The United States Postal Service is 40 percent higher in productivity than any postal service in the world--40 percent. There is no business in America that would not be eating their competitor's lunch internationally if they were 40 percent ahead in productivity. As a matter of fact, there are some, I suppose, that are 40 percent ahead in some industries.

It is an extraordinarily good system that produces one of the more costly services, akin to gasoline, if you will. Now, that may sound strange, but in terms of the money that we pay for gasoline in the United States compared to what we paid for it 50 years ago, it probably had a quite low inflation rate, lower than almost any other consumer product.

The same is true in the Postal Service. Now, I do not want to spend a lot of time defending the Postal Service because Mr. Potter does a very good job of that--General Potter does a good job of that on his own. I do want to say--I am sorry Mr. Northrop left--that the airlines--yes, we came up with \$15 billion and we came up in a real hurry with \$15 billion. Why?

Because the airline industry is essential for the commerce of this country--well, actually the cultural and social aspects of this country, but also the Postal Service is as well. We need to come up with money in the short-term to overcome what are not operating problems that they could foresee any more than the airlines could foresee being grounded for days, weeks, at a time and customers falling off very substantially. The

same thing happened in the Postal Department and we need to make sure that in the short-term, we help them bridge that gap, and we need to do it with grant money.

I know you have got formula now to, as I understand it, accelerate the \$29 million payment which is 32 or 33 years that it has got a pay out, coming up with about \$950 million figure. That may be the way to do it. Frankly, I think that the \$29 million was contemplated for other purposes over those years and this is a short-term crisis and probably we should fund it with short-term dollars and not go into that \$29 million. It is a creative way to try to get to that end.

#### PAY FOR PERFORMANCE

Let me ask you a question on bonuses. I do not want to focus on that, but I do want--if you have the figure--if the old system were in place--I understand that we talked about the \$805 million for the 82,000 people--if the old system were in place and we did cost of living adjustments and the regular adjustments unrelated to performance, what would the incremental dollars have been for the 82,000 people? Do you know that figure?

Mr. Potter. It is over a half a billion dollars annually.

Mr. Hoyer. So it would have been \$500 million. So in effect, those 82,000, we would have done an extra \$300 million in terms of performance recognition.

Mr. Potter. No, what I am saying is, had we continued with our original pay schedule and if we had the same increases as the federal government over the last----

Mr. Hoyer. Yes, that is my question.

Mr. Potter. Yes. We would be spending about \$500 million more annually--more than \$500----

Mr. Hoyer. But more than the \$805 million?

Mr. Potter. It would be annually. This year, if you look at it--well, 2001, if you look at 2001 and you say, ``What did the Postal Service pay out in wages, benefits and the lump sum payments,`` and you had compared that to what it would have been had we stayed under our own system----

Mr. Hoyer. It would have been \$500 million annually or the \$805 is a three-year figure, so the \$805----

Mr. Potter. What I am saying is in that one year, it would have probably cost us better than a half a billion dollars more.

Mr. Hoyer. Okay. Follow me, see if I am right. \$500 million more than the \$805?

Mr. Potter. What I am saying is if you take an annual number--take what we paid out--forget about the----

Mr. Hoyer. You paid out \$805.

Mr. Potter. Yes, we did. It was----

Mr. Hoyer. Bonuses over three years.

Mr. Potter. Over three years we did. But take one year----

Mr. Hoyer. All right.

Mr. Potter. Last year we paid out something like \$170 million, in that neighborhood. If you add that to what people got paid in terms of base pay, straight pay instead of

overtime, the merit increases they had--just their general compensation--had we, in 1996, not changed and gone to this new program, our annual compensation would probably be somewhere in the order of a half billion dollars more.

So this is not what is being described as this super-generous program where we are giving away people's money. This is a program where----

Mr. Hoyer. Let's make it clear because I am still not clear.

If it would have been \$500 million more and you did \$805 million over three years, are we talking about \$1.5 plus the \$8 or a \$2.3 billion figure related to an \$805 million figure?

Mr. Potter. I am talking about on the order of a \$1 billion because it grows over time.

Mr. Hoyer. I think I am hearing some yeses back there.

Mr. Potter. It would be a \$1 billion on top of the \$800 million.

Mr. Hoyer. So \$1.8 as opposed to \$2.3. Okay. Whatever it is----

[Laughter.]

Mr. Hoyer. No, I understand.

Mr. Potter. It is more.

Mr. Hoyer. The point, I think, is----

Mr. Potter. At the time that we entered into this program, when we did a comparability study----

Mr. Hoyer. General, I am trying to help you and I think----

Mr. Potter. Thank you.

Mr. Hoyer [continuing]. That we are on the same----

[Laughter.]

Mr. Potter. Sorry.

Mr. Hoyer [continuing]. Wave link. My point is and your point is that if you stayed with the old system, the dollar pay-out would have been a \$.5 billion, a \$1 billion more over those three years. It is either \$1.8 to \$8 or \$2.3 to \$8, whatever. We are having a little trouble getting to the exact--  
--

Mr. Potter. It would be about \$1.3 billion.

Mr. Hoyer. Right. Okay.

More than we did pay out. So that when you get an article that says that you paid out \$805 million without any base to relate that to, it appears that it is a very large figure. It is like saying that federal employees do not make anything today and they are going to make \$30,000 tomorrow. Well, that is terrific. But if they made \$29,500 today and they are going to make \$30,000 tomorrow, it is not nearly as much.

Or, in this case, if they made \$30,000 yesterday and they are going to make \$29,500 tomorrow--which is essential because we have done down, in fact, in payments--some people may have gotten more; some people got less, which, General, as I understand it, was your explanation of why there may be some people who do not think this is a great system, who do not perform highly as managers and who, therefore, do not get as big an increment as they would have under the old system. Correct?

Mr. Potter. Exactly.

Mr. Hoyer. All right. I think the time is up. [Laughter.]

Mr. Istook. I do not know which one of you just got left

off the hook or taken off the hook by that. I appreciate it.

Mr. Hoyer. It took a little of my time to get there, but I hope we succeeded.

Mr. Istook. I believe we have three different votes on the floor. So I imagine that we are going to be at least 20 minutes probably before we are able to resume the hearing.

Thank you for your patience. I wish we did not have to do so, but we do stand in recess.

[Recess.]

Mr. Istook. I thank everyone for your patience.

We will resume from the recess, and Mr. Sherwood, I would like to recognize you.

Mr. Sherwood. Thank you, Mr. Chairman.

Gentlemen, thank you for being here.

Two things that I think have defined the American character to a certain extent in the American experience and our success; our universal public schooling and the mail service. And my greatest fear is that we do something that will end up in hurting my rural constituency by not having 6-day-a-week dependable mail service.

And so, I think the things we have to look at are, how do we be efficient enough that this thing works again on its own because it definitely as, at times, very well? You have just gone through some very difficult times; things that were beyond your control. But in private industry or small business, things happen that are beyond managers' control every day.

So I have a couple of questions I would like to ask you.

#### LABOR COSTS

What percentage of your total costs are personnel costs?

Mr. Potter. About 75 percent.

Mr. Sherwood. About 75 percent. And have you communicated to all your employees how dire the financial straits the post office is in right now?

Mr. Potter. Yes, on a regular basis.

Mr. Sherwood. Because I think a great example of success is the Lee Iacocca-Chrysler situation, and what he was able to do is to communicate very effectively to his employees and his suppliers and everybody that was in his constituency is that they were in trouble and everybody had to share the pain. And when everybody thinks the pain is going to be equal, it is surprising what average people will stand up and do.

And I think the thrust of Congressman Peterson's question-- I do not know how to get to the bottom of that because I know everybody hates change.

And so, if it is different, they do not like that. But if I read him right, there are people who are working in the post office that do not think the bonus system is productive, and now if that is--if they do not think that because they do not want to accept the change and accept the challenge, that is their problem.

But if they correctly assess that it does not lead to good results, that is your problem. And I do not know where that is, but I think we have to sort it out.

With the resulting downturn in mail since 9-11 in your product, what have you been able to do with your personnel? In other words, do you have a freeze on? You cannot pay people less; you have to reward them for hard work, but you do not have the luxury of having too many.

Mr. Potter. Congressman, since that time, we have eliminated or reduced our career workforce by 8,000 people.

Mr. Sherwood. What percent is that?

Mr. Potter. That is not a big percentage. It is about 1 percent.

Mr. Sherwood. But is it commensurate with the downturn in your workload?

Mr. Potter. No, but our work hours are commensurate with the downturn of the workload because we have a significant amount of overtime. We have lost some 8,000 career employees since the beginning of the year. Our noncareer employees are now some 7,000. Our work hours are 38 million work hours below the same period last year, over this first six counting periods or months of our fiscal year.

So we have managed to maintain our labor productivity level throughout this crisis, and it is a matter of balancing. In fact, our labor productivity went down at first because it took us a while to react to the tremendous volume loss that we saw. But our labor productivity is slightly positive for this fiscal year. So we have managed to match our use of labor resources to workload.

Mr. Sherwood. Productivity is something that employees are very proud to do, but it has to be explained to them that you are not just squeezing more out of them, but that they are a productive member of the team. And it is hard in a huge organization to get that communication level done. But I was very concerned that personnel costs would be a huge amount, and they are; they are 75 percent, you told me, or thereabouts.

So if your revenue stream goes down, any other business would run their personnel costs down about the same way, and they would try to run all the other costs down. And, of course, you want to make sure that you are set up such that it is in everybody's best interest to make it work because, you know, the old theory would be, ``Well, we will just go to Uncle and get another \$1 billion,`` which is what I think we would like. But today, what do we do? Do we take that out of border security? Or, you know, we have unusual demands on our money right now--unexpected, just as you have unexpected demands on your people. They have been subjected to dangers that we would have never expected earlier.

#### MAIL SECURITY

If I can get off on another question. I read where you are trying to make it safer--make the mail safer by putting it in--some of it in bags and a chlorine gas treatment and so forth, is that actually in the plan? We do not want something where we lose more people with the cure than we do with the disease.

Mr. Potter. No, sir. The plan calls immediately for detection technology to be introduced and for vacuum systems to be added to our machines to prevent widespread contamination of a facility. And so, through detection and this control of air

movement around the building, we hope to contain, should there be, and we are praying that there is not, any bioterror agents put into the mail.

Our radiation technology is something that is part of the plan but on a longer term basis because the current technology, as you describe, has as many downsides as upsides. So we are being very cautious. We are using, technologies that are available to us and there is a need for some breakthrough, to be quite candid with you, in certain areas.

Mr. Sherwood. But the vacuum technology is good even if these scares get over because it will reduce the dust in your workplace. I mean, that sounds like good management to me. Everybody talks about how dusty the sorting machines are and, you know, this anthrax deal might go away. But that would be a good long-term improvement. How fast can you get that done?

Mr. Potter. Let me turn to Tom Day.

Mr. Day. Congressman, we are working with our current vendors that have built the letter and flap distribution equipment that is already in the Postal Service to modify the existing equipment to build in that vacuuming infiltration system.

The one prototype that has already been evaluated is located locally here in our Dulles mail facility. We have worked with NIOSH to validate that it works. We are moving forward to get the same prototypes built for our other distribution equipment.

We believe we can move forward and that is a key part of the funding of the \$500 million that we will go forward with, that we could do contract awards this fiscal year and probably spend most of fiscal year 03 actually getting that equipment deployed and in place.

Mr. Sherwood. But if that is our policy, I think we owe it to all the people that work in the system to get it executed as soon as possible.

Mr. Potter. As we get the contract award with those vendors, everything we can do to accelerate the deployment will be done.

#### BORROWING LIMIT

Mr. Sherwood. I understand that you have the authority to borrow up to \$15 billion from the U.S. Treasury, but are we right that you are at about \$12 billion of that now?

Mr. Potter. Currently we are at \$11.3 billion. This year we can go up to \$14.3 billion.

Mr. Sherwood. But last year the service ran about a \$1.7 deficit and I thought I heard you testify earlier that it might run a little over \$2 this year?

Mr. Potter. Right. Yes, sir.

Mr. Sherwood. So it looks like under statutory authority if we do not do something pretty substantial, you are running out of head room on your line of credit.

Mr. Potter. We will, in all likelihood, we will be under the \$15 billion this year, the \$14.3. We are working very hard to assure that we are there for this year--this fiscal year. And for 2003, obviously, we are trying to manage as diligently, as quickly as we can to make sure we do not exceed that \$15

billion.

Mr. Sherwood. In that regard, what congressional actions do you need?

Mr. Istook. We are at the end of your time, Mr. Sherwood, but go ahead and finish on if that is a simple question.

Mr. Sherwood. It is.

#### LEGISLATIVE CHANGES

What congressional actions--what do you need from us to give you the authority to cut cost and move toward becoming a more performance-base culture?

Mr. Potter. We are moving ahead, as we speak. In the very short run, what we have been looking and asking for is some pricing freedom, so that we can begin to negotiate with businesses for their business.

One of the things that is a concern to us, is our inability to lock down customers for multiyear periods. And that would give us better opportunity to plan, in terms of the use of our resources. But the one area that we could use the most immediate help is in the pricing area and as well as the appropriations we discussed.

Mr. Istook. Thank you, Mr. Sherwood.

#### MAIL IRRADIATION

Mr. Potter, you mentioned in response to a question to Mr. Sherwood, regarding irradiation of the mail, that although it was not originally thought that it would be that way that it is turning out the process, I believe you said has as many downsides as it has upsides. And I appreciate that. I appreciate the effort to look to technology for finding some key answers; sometimes it works, sometimes it does not. I think it is important to ask, if indeed it has as many downsides as upsides, should we continue with irradiating mail that is destined for government offices here in Washington?

Mr. Potter. Mr. Chairman, I believe----

Mr. Istook. I understand you are not the only voice in this, but----

Mr. Potter. I was just going to say----

Mr. Istook [continuing]. Voice would be appreciated.

Mr. Potter. The key to that answer is an assessment of risk. Right now that the only technology that is available on the market to decontaminate mail or to overcome the spores. So, today, based on a risk assessment that is the best practice.

Now, as we go in the future, there will be continual evaluation of risk, and I think we can make judgments as we go. Today I think it is the appropriate thing to do.

Mr. Istook. But, obviously, you are open minded as to how quickly that risk assessment might change.

Mr. Potter. I think as we put new technologies in place, particularly detection technology, that assessment will, perhaps, change.

#### MAIL SECURITY

Mr. Istook. Okay. Is the ability to deploy sensing

technology, for example, sensors within a mail collection box or others that you were looking at--I know you are looking at broad scale changes and how mail is received when it comes from an anonymous sender, how it is received into the stream of postal mail--is the ability to deploy those safety measures dependent upon this Congress providing any appropriation beyond the normal revenue foregone accounts that we have historically provided year after year?

Mr. Potter. Our emergency preparedness plan lays out a three-year horizon, in terms of what monies--could be spent in terms of dealing with bioterrorist agents in the mail. And certainly, we would constantly be evaluating risk as we go along, and our financial capability in terms of being able to meet the costs of those technologies.

Mr. Istook. I take it, because my question was whether the ability to do so--my question was whether you would still be able to employ these measures with collecting this stream of mails from the mail collection boxes, even if this Congress does not provide any greater than normal appropriation? And I gather from your answer that the ability to deploy that does not depend upon whether we have any extraordinary appropriation.

Mr. Potter. It very well could depending on our financial situation. And as described earlier, our financial situation is very tenuous.

Mr. Istook. I understand it is tenuous and that is obviously why the questions have focused upon postal transformation, expense, control. I understand, as you testified, that 75 percent of your expense, of course, is personnel. I recognize there are contractual obligations that are there. There are binding arbitration issues that come up. And I realize you do not always have the flexibility over expenses that you would like to have. And I also recognize that that situation is not a product simply of the management of the Postal Service. It is also a product of legislation and laws enacted by this Congress, which is why you are looking at potential changes in laws on it.

#### E-COMMERCE INITIATIVES

But looking at other areas of costs, for example, for the Postal Service, the e-commerce initiatives. Now, is it correct that the revenue projections for what would come through e-commerce have been off by a factor of about 100, that it has only been approximately 1 percent of the revenue stream that was anticipated from e-commerce.

Mr. Potter. I do not have the exact percentage, but it is probably close to that.

Mr. Istook. And I believe there was, for example, a revenue projection for the most--I believe it was for the most recent year projecting something like \$104 million in e-commerce revenue, and only about 1 percent of that revenue stream was realized. That is the figure I have seen, whether it is precisely accurate or not, that is the figure I have been given. With that in mind, how much has the Postal Service spent on trying to create these Internet-based e-commerce streams for electronic bill payment, for example, and secured handling of

documents on line, how much has the Postal Service expended on that?

Mr. Potter. I do not know the exact number. But I know it is nearly \$80 million, and I will be happy to provide that for the record, but it is a significant amount of money.

[The information follows:]

From the period 1997 through mid-2002, the Postal Service spent just under \$80 million on e-commerce development.

Mr. Istook. But the effort continues. Well, we have not canceled the program.

Mr. Potter. We have discontinued our post-ECS product. We are in the process of evaluating all of our electronic commerce initiatives. We are working through each and every one of them. I expect to be making announcements in the near future on the programs that will change. It is not as simple as you just pull a plug. It is a matter of, an investment has been made; if we can recoup some of that investment, we would like to do that. We do have customers for some of these products, so if and when we discontinue there will be a need for notification, and we have business partners. So we are working through each and every one of these.

And as I said, we have discontinued our post-ECS product. I announced that earlier this month. And you can expect us to make additional announcements than the ones I have.

Mr. Istook. And let me be clear: I would not condemn the Postal Service or any enterprise for making decisions that, in hindsight, did not work out. That is normal. You can pick up the paper everyday and read whether it is business decisions, corporations or this Congress or anyone else, we all try things that do not work out. The bigger problem is if we do not learn any lessons from those experiences. Therefore, my question is, from the Postal Service's ventures into e-commerce, what lessons do you believe have been learned?

Mr. Potter. One lesson is that there are certain market places where we just do not belong. There are market places that we thought would grow that have not grown. There is a need when you enter into some of these new product arenas for a much more aggressive marketing and sales effort than we had planned for. And so, we have learned, those lessons and we would hope, in the future, to make sure that we take advantage of those lessons as we look to new things.

We do think there is a need for every business in America to be on the Internet and to operate in that medium, and we are trying to find our niche. But I can not guarantee you that we will not make mistakes in the future. And as you said, every business in America has to try different things and we are going to continue to look at opportunities.

Mr. Istook. Well, certainly, I mean, speaking as a person that definitely is a believer in e-commerce and the potential of Internet and electronic commerce and opportunities, I do not know necessarily what lessons, perhaps, ultimately we will find should be learned. But I would certainly encourage you and we will be trying to assist in making sure there is some good analysis as to whether those are the factors or perhaps some other things that may not be as obvious right now.

But the Postal Service, talking with private enterprises, looking at approaches that they are taking compared to approaches that the Postal Service is taking, I think there is still a lot of need for innovation. And the last thing I would want to do by criticizing some effort at innovation that failed, the last thing I would want to do would be to cut off an attitude toward innovating, because I certainly want to encourage that attitude.

Mr. Hoyer.

#### EMERGENCY PREPAREDNESS PLAN COSTS

Mr. Hoyer. Thank you, Mr. Chairman.

General, I have a lot of questions about the emergency preparedness plan, some were preliminary. I am going to submit those for the record. Let me go to what I think are the questions I would like to hear right now.

Your plan states that an additional \$87 million is needed for immediate safety needs. I do not know whether you have spoken of those already, I was late to the hearing so if you have, we will move on. My question is, have you submitted a request to OMB for these funds to be included in an emergency supplemental package?

Mr. Potter. We have shared those numbers with the administration, yes, we have.

Mr. Hoyer. Have you requested that they be included in a supplemental?

Mr. Potter. Yes.

Mr. Hoyer. Has the Office of Homeland Security reviewed that, to your knowledge, your request?

Mr. Potter. Yes.

Mr. Hoyer. Do you know what response they made?

Mr. Potter. No.

Mr. Hoyer. So they gave you no response.

Mr. Potter. Well, they told us that they would look at it and give us full consideration. But they did not say a definite yes or a definite no.

Mr. Hoyer. What will be the impact of not receiving those funds in fiscal year 2002?

Mr. Potter. We would probably look to delay some piece of our plan for this year. So as an example, if we were buying filtration systems on our equipment, we might break the contract up such that we would commit monies in an out-year. My preference would be to do it as quickly as possible. The more you commit, the better the price and, the quicker we can provide safety for our employees and the American public.

Mr. Hoyer. Now, your planning calls for over \$4 billion beyond 2002 to provide for mail safety. Is it your expectation that these funds will be provided by Congress and later appropriations?

Mr. Potter. We certainly will request that.

Mr. Hoyer. Now, what will be the impact if these funds are not provided?

Mr. Potter. Again, it is a matter of our economics and whether or not we have sufficient funds from operations to put these new technologies in. At the present time, you know, we are looking for the Congress and the administration to help us

because our outlook is not that positive.

Mr. Hoyer. I understand that. Now, if the Congress does not provide supplemental funds either for 2002 or 2003, 2004 and 2005, how necessary is it that we expend those funds to provide for the safety of employees and users of the mails? If they are essential, will that then require monies from service sectors to accomplish?

Mr. Potter. Throughout this program we are going to constantly be assessing risk, risk to our employees. Obviously, we are moving ahead with the technologies that we feel provide the greatest protection with detection and vacuum.

And I do not know, Tom, would you want to add to that?

Mr. Day. Congressman, what we are faced with is that, we believe with the \$500 million that was appropriated that we can provide a layer of protection that will provide a level of risk reduction, both to our employees and to the public in general, but it is not the full layer of protection that we believe is necessary. And so, that is why in 2003, 2004 especially, there is a need to progress further to provide the layer of protection that we think is commensurate with the threat that bioterrorism would present to the Postal Service, that we need to go forward and provide that further layer of protection that is much more system-wide and gives the opportunity to protect the broad range of employees and the public.

Mr. Hoyer. Here is my concern: If that money is not provided to supplement your revenues, are the services, activities or objectives so critical that you would have to take away from service money that would then put a downward pressure on use, which would be a cycle of downward performance and revenues?

Mr. Potter. The short answer is yes.

Dick would like to add a comment.

Mr. Strasser. I think that is a good point, Mr. Congressman. What we have been talking about, waiting from the rate commission for is a proposed rate package that was due to go into effect in 2003. We have got a settlement with the mailing community to move it forward to June. That rate setting package increases the First-Class stamp to 37 cents. Incorporated in that was no cost for security. It was filed before the terrorist actions, so there is no funding or financing in the rate. We are in a situation where we may raise rates this summer, but those rates are only designed to sustain our excellent levels of service and our current financing of operations. They are not designed to raise the \$1.5 billion that we need in 2003 and 2004 for security.

And so, if we were, because of risk assessment and because there was a determination that we needed to raise the level of security and safety for employees and postal customers, if we were forced to spend the \$1.5 billion from operating funds, we could, in fact, as the Postmaster General says, have a situation where we are ratcheting down such that we would have to look to other areas that might limit access to our postal system, make us less competitive, or features that could threaten the future viability of mail volume and growth, which already is threatened by electronic diversion, as we have seen.

Mr. Hoyer. Let me move to another segment, commercial mail. What is the percentage of commercial mail handled by the Postal

Service?

Mr. Potter. Commercial-related mail is over 95 percent.

Mr. Hoyer. In your analysis, preparation of your emergency plan, what is the difference in threat level from commercial mail to individual mail?

Mr. Potter. We use the term manufactured mail; but the greatest threat is from open access to our system, which is through collection boxes. There has never been, to the best of my understanding, a threat through manufactured mail.

Mr. Hoyer. So that essentially, it is the 5 percent that poses the greatest risk. If commercial mail or manufactured mail is 95 percent, would it be accurate to conclude that it is 5 percent of the mail stream that causes the greatest risk?

Mr. Potter. Let me back up just a second. We said that 95 percent of the mail is business-related, that includes people paying bills.

Mr. Hoyer. Right.

Mr. Potter. So some 17 percent of our mail comes to us through collections, collection boxes. So it is that 17 percent of mail that comes in. And I do not want to confuse things, but----

Mr. Hoyer. I understand what you are saying.

Mr. Potter [continuing]. It is that 17 percent that we are dealing with.

Mr. Hoyer. In the emergency report you state the following: The Postal Service is continuing its efforts to create an intelligent mail stream, whereby each mail item can be uniquely identified. Can you describe how, quote, intelligent mail stream, would be effective in deterring terrorists from using the mail?

Mr. Potter. I will turn that to Tom.

Mr. Day. Congressman, that has actually been an ongoing effort that predates the security issues of 9-11 or the anthrax attack. We have worked with the mailing community to develop the concept of intelligent mail. It takes several different forms, there are different bar code formats. In fact, I am on a committee now. We are working together with the mailing industry to determine what are the right formats and data structure for how intelligent mail works.

But the basic concept of how it provides a level of security is you have the ability of the individual mail piece to know information, in terms of who the sender is, when the mail piece was created, what the mail piece is, who it is going to, and having the ability to track all of that data through the system. That kind of end-to-end tracking of mail, which primarily is coming from the manufactured mail source, so the overwhelming majority of the mail we deal with is what becomes intelligent mail, provides us the capability to just understand what is in the system, where it is coming from and going to. So just that knowledge and data flow give you a much higher level of security as compared to the anonymous mail that is dropped in the individual collection box.

Mr. Hoyer. My time is up.

Mr. Istook. It is, unless you----

Mr. Hoyer. No.

Mr. Istook. Thank you. Okay.

We will recognize Ms. Meek for the concluding questions.

## LABOR-MANAGEMENT RELATIONS

Mrs. Meek. How would you characterize the current state of labor management in your particular area, Mr. Potter? And when you do that, what steps are you taking to involve the union in the transformational plan, which I notice from your testimony?

Mr. Potter. Regarding the transformation plan, we have reached out to all of the unions and management associations. As a matter of fact, we had the union presidents and the management association presidents meet with our Board of Governors. They formed a panel. They met with the Postal Service Board of Governors. I think that is the first time in the history of the Postal Service that that has occurred. We have and I am personally going to meet with all of the presidents between now and the time that we put the plan out.

We have shared our discussion draft with the unions, and asked and solicited their comments. As I said, we ratcheted that up with personal conversations with me, as well as their participation with the Board.

As far as overall labor relations within the Postal Service, I think that we have made some great strides in the last several years. One of the things that has been most helpful to us--there are two things that have been most helpful. One is a joint contract administration manual that we have with three of our unions, where in the past we have had contentions over interpretations of the contract. And we have sat down and had a mutual understanding of what the contract means. We have gone out and trained labor representatives from the Postal Service, union representatives throughout the country and our employees, so that we take some of the grievances that are in the system out. We have been very successful, as I said, with three of the unions.

The fourth union, I just received a letter from this week saying that they were going to provide to us their version of the contract interpretation, a manual. We have been working on that. They have been working on their version since 1998. So that was a good sign and I was very happy to hear from the presidents regarding that.

In the area of EEO complaints, which have been a significant problem for the Postal Service. Annually we had been receiving 14,000. We have dropped that down to some 10,000. It is still too high. I am not saying that we are satisfied to even have one, but we have driven that number down. We have introduced a redress process so that we attempt to mediate solutions as soon as a complaint becomes formal. And so we are working hard.

I would be less than accurate if I characterized it as a perfect situation, but we do know that--and I would like you to know--that there are efforts under way to improve that relationship from the bottom right up to the top.

Mrs. Meek. Thank you. I ask you that question, because during the interim time I served on this committee I served on the Post Office Committee, the Authorizing Committee, and I learned of a lot of situations. And I am glad that you are on top of them and it will continue to get better for the workers.

## EMPLOYEE COMMUNICATION ABOUT ANTHRAX THREAT

My next question has to do with the health-related problems with anthrax. Are you reaching out and involving the unions and all the stakeholders in your planning to go up against any kind of anthrax threat?

Mr. Potter. This is one of probably the things I am more proud of when it comes to our efforts with anthrax. What I am proud of is that, the unions, management associations joined with management of the Postal Service to address the health-related concerns of anthrax. We met when we initially had the problem on a daily basis. We shared with them everything that we knew about anthrax. When they said, ``We heard this from the CDC or this from somebody else,'' if they had concerns, we brought those people into those sessions. As a result of that, we have ongoing committees that are part of a task force that are related to dealing with bioterrorism and other security matters in the Postal Service.

And I am very grateful to the unions for their participation. And we have shared everything that we know. And I am not saying that we knew a lot initially, but as we learned, they learned. And it is one of the things of which I am most proud of our people for the way they have rallied together to deal with this issue.

Mrs. Meek. Thank you very much. I yield back, Mr. Chairman.

Mr. Istook. Thank you, Mrs. Meek.

General Potter, thank you for taking the time, for everyone that has come here to assist you. I appreciate your testimony and efforts. It has, I know, been a little bit of a difficult day for you, but that is because circumstances are difficult. And we appreciate your efforts and the progress that you are making and that we hope we can help you to improve with the Postal Service.

And we will submit the other questions for the record. Thank you for taking time.

We stand adjourned.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

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